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INTRODUCTION

Over the last three years the Financial Action Task Force (FATF) has blacklisted countries it believes provide an environment of laws and practices conducive to money laundering. Their assessment of each country's financial environment is extensive and covers four main areas: loopholes in financial regulations, particularly in relation to identification; obstructions raised by other commercial and legal requirements; impediments to international cooperation; and resources allocated to anti-money laundering programmes. Failure to comply with FATF best practice results in blacklisting.

Blacklisting questions the legitimacy of the country or jurisdiction identified and its right to conduct financial business in the global environment. How countries react to this challenge, how they regain some form of legitimacy, what their new legitimacy means and how it impacts on their future operations are discussed in the following sections of this paper.

LEGITIMACY

The concept of legitimacy used in this paper is borrowed from organisational theory where organisational legitimacy is viewed not as a quality or characteristic determined by an organisation, but as an attribute conferred on it when external parties, affected by the organisation's outcomes, endorse its goals and activities. Here its applicability and relevance is extended to examine the actions of countries in the face of a legitimacy crisis: namely blacklisting.

In the context of organisational theory, legitimacy implies nothing about the legality of an entity's activities, merely that the goals and activities of those parties that are in a position to confer legitimacy are aligned with those of the organisation concerned. Dowling and Pfeffer[1] suggest that organisations actively seek to align the values implied by their activities with the values of the larger social system in which they operate, while Suchman[2] defines legitimacy as a 'generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions'.

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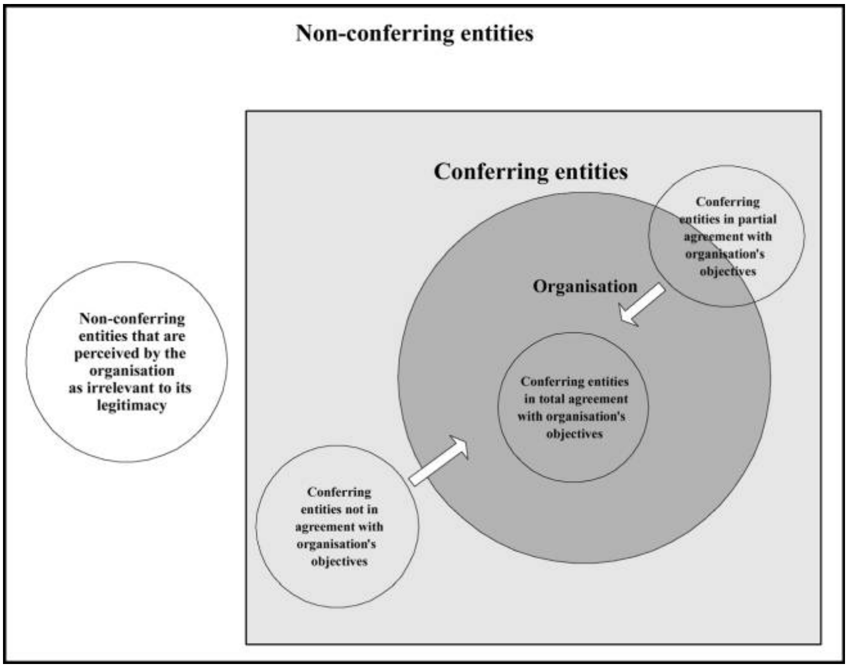
Given that the organisation concerned does not have to gain approval from all of society, it can remain legitimate in the face of attacks providing it can retain support from enough parties to ensure its survival. Even so, maintaining legitimacy is difficult given its rather nebulous quality and society's changing views and norms. O'Donovan[3] stresses the importance for an organisation to identify its conferring entities, since the aim of the organisation is to bring all these conferring entities into total agreement with the organisation's goals and value system, either by changing its own activities so that there is more congruence between the organisation's values and the values of the conferring entity, or by attempting to alter the values of those entities which the organisation believes can bestow legitimacy upon it. It is unnecessary for an organisation to attempt to manage all of society's perceptions, it need only identify specific entities and choose tactics best suited to its chosen audience, since only these groups are able to confer or withdraw organisational legitimacy. This relationship is demonstrated in Figure 1.

Within the circle are those entities in total agreement with the organisation's operations. In the inner square are those entities that the organisation views as being able to confer legitimacy. Some will not agree with the organisation's goals and values, while others are in partial agreement. The organisation would like them all within the circle in complete agreement with its activities. Those entities in the outer square are viewed by the organisation as irrelevant, having no bearing on the organisation's legitimacy and consequently they would not be considered in any organisational decision making.

Suchman defines three types of organisational legitimacy: pragmatic, moral and cognitive. Each one rests on a somewhat different behavioural dynamic:

(1) Pragmatic legitimacy is determined by the support for an organisation's activities, aims, objectives and policies based on their expected value to the conferring entity.
(2) Moral legitimacy is not based on gains to

Figure 1 An organisation's relationship with conferring and non-conferring entities



conferring entities but on whether the conferring entities believe that the organisation's activities are 'the right thing to do' within a set of accepted social values. Suchman describes four forms of moral legitimacy:

(i) Consequential legitimacy — legitimacy is conferred based on the evaluation of the organisation's accomplishments.
(ii) Procedural legitimacy — legitimacy depends on the organisation embracing socially accepted techniques and procedures.
(iii) Structural legitimacy — legitimacy is conferred when the organisation adopts institutionally prescribed structures.
(iv) Personal legitimacy — legitimacy is derived from the charismatic individuality of an organisational leader.

(3) Cognitive legitimacy relies on the provision of what conferring entities believe are plausible explanations for the organisation and its activities.

Although all three coexist and interrelate in most real-world settings they do reflect two underlying distinctions. Pragmatic legitimacy relies on the self-interest of conferring entities whereas moral and cognitive legitimacy do not. This may imply that pragmatic legitimacy can be 'bought' whereas ethical judgments rely heavily on a larger set of cultural rules. Suchman suggests that legitimacy becomes more elusive to obtain and difficult to manipulate as it moves from pragmatic to moral to cognitive, but the further the move from pragmatic legitimacy the more subtle and self-sustaining legitimacy becomes, once it is established.

At the beginning of their life span organisations are faced with winning acceptance and gaining legitimacy. They typically have three alternatives:

(1) Adapt their output, goals and methods of operations to conform to prevailing definitions of legitimacy.
(2) Become identified with values or institutions which are themselves considered legitimate.
(3) Attempt to alter the perception of legitimacy held by the conferring entities to bring it into line with the organisation's practices.

Given the changing norms of social legitimacy, organisations are more likely to use the first two methods. Once conferred, legitimacy tends to be taken for granted with legitimation activities becoming increasingly routine. As managers become more complacent they often fail to notice a decline

in support and an unforeseen crisis therefore causes a reactive response. These responses will take different forms depending on the type of legitimacy in question.

Suchman provides details of a variety of responses ranging through denial, excuses, justification and explanations. When these do not work, restructuring may be the only alternative. This may involve independent outside parties assessing the organisation and/or the organisation restructuring in a way that distances it from the areas of concern. When actual or potential differences develop between the value systems of the organisation and the conferring entities, organisational legitimacy can be threatened by legal, economic and/or social sanctions.

If organisations' efforts to gain, reclaim or repair legitimacy can aid in explaining their behaviour with respect to relevant business or social issues, the same approach should be able to be used to examine the responses of blacklisted countries to claims that they provide an environment conducive to money laundering, an activity which is no longer accepted by much of society as a valid financial activity.

THE FATF QUESTIONS LEGITIMACY

The FATF published its first report on the issue of non-cooperative countries in February 2000. There they set out 25 criteria against which a country's financial services sector would be evaluated. In their review of each country they used information on the country's laws and regulations, any mutual evaluation reports or self assessment surveys as well as asking the country concerned for specific comments. Most countries actively participated in the review.[4] This equated to a fairly rigorous investigation of the country's policies and activities relevant to money laundering. The result of this first review was a list of 15 non-cooperative countries. The FATF urged these identified (blacklisted) countries to quickly improve their laws and regulations in order to remedy the deficiencies in their systems. Should they fail to take the necessary action the FATF would consider the implementation of (at the time) unspecified countermeasures. Blacklisting continued on a regular basis until 2002 with a number of new countries identified and old offenders removed as their anti-money laundering laws and procedures were improved. Table A.1 in the Appendix contains a list of blacklisted countries and their anti-money laundering progress.

When the FATF published its first money laundering blacklist in June 2000, it did more than put the spotlight on 15 countries. It questioned their legitimacy to operate as financial centres in the global financial system. Until this point, these countries were able to derive their legitimacy from those entities they viewed as necessary for their survival: their honest or dishonest clients; financial advisers; domestic regulators, unregulated financial institutions as well as financial institutions from regulated countries which were willing to provide correspondent banking services.

The FATF was not considered a legitimacy conferring entity by the countries concerned. It had taken on that role of its own accord: a role it could assume only because of its own growing legitimacy, conferred on it by an ever increasing number of countries and organisations that wanted to become aligned with its goals and objectives. The FATF's authority continues to increase as more and more countries enact anti-money laundering legislation as a result of the 11th September, 2001 terrorist attacks in the USA and the resulting war against the funding of terrorists and their associated organisations. This is an example of the position held by Mitchell *et al.*,[5] that power on its own cannot guarantee authority unless the power itself is considered to be legitimate.

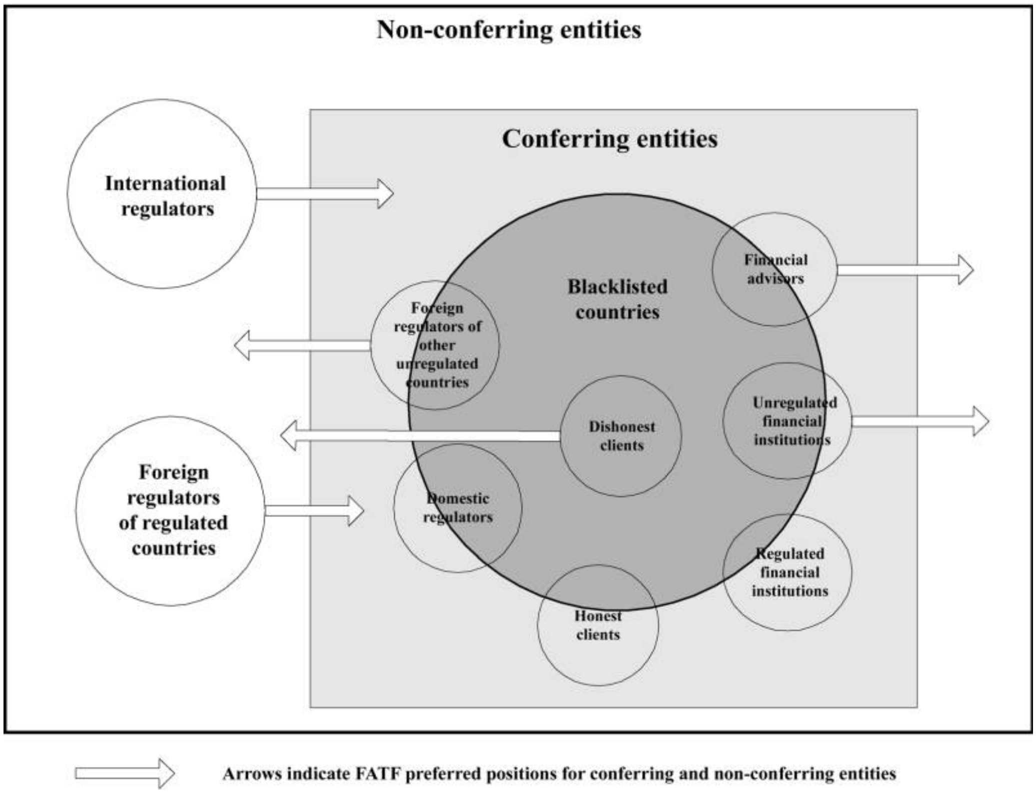
Figure 2 depicts the legitimacy framework for blacklisted countries before and after blacklisting. The diagram, minus the arrows, shows the legitimacy relationships between conferring and non-conferring entities and blacklisted countries before the FATF's actions, with countries clearly viewing international organisations and foreign regulators as irrelevant to what they consider are domestic matters.

The arrows indicate the FATF's preferred relationships where legitimate international organisations and foreign governments become conferring entities, with unregulated countries and unregulated financial institutions clearly removed from the inner to the outer square to become non-conferring entities. Dishonest clients and financial advisers offering dubious financial services are also relegated to the outer square. The problem for blacklisted countries is that their 'new legitimacy' may not be financially viable if in the past they relied heavily on dishonest clients for their financial survival.

NEW LEGITIMACY REQUIREMENTS

Until the FATF questioned the legitimacy of the financial operations of these uncooperative countries,

Figure 2 The relationship between blacklisted countries and conferring and non-conferring entities



there had been no need for them to achieve anything other than what Suchman defines as pragmatic legitimacy. Financial services were designed purely around clients' needs without any consideration as to whether those needs were for legal or illegal purposes. In fact services such as banking secrecy and anonymity were offered to entice new clients without any regard as to who they were. Clients, in turn, had by their actions (ie financial support) conferred legitimacy on these countries.

But social norms change and this is no longer acceptable behaviour. What blacklisted countries are now being asked to achieve is moral legitimacy: that is, they are expected to do 'the right thing', not in a cultural or societal framework of their own choosing but a structural framework as defined by the FATF and endorsed by the world's largest and most developed countries. The cost of this level of moral legitimacy includes not only the value of current and future financial business lost because it relied on anonymity and secrecy but also the cost of overseeing and administering the new laws, regulations and procedures. These costs would amount to a considerable sum.

For some very small islands where financial services now provide a major part of the country's income since agriculture is no longer profitable and tourist numbers are declining, it may mean the demise of their whole economy. This is a very serious issue but one that should not be solved by offering undesirable financial services to people who have money to launder from illegal activities.

LEGITIMACY REPAIR STRATEGIES

There will be conflict between the actions necessary to achieve moral legitimacy and the provision of financial services associated with pragmatic legitimacy. If the proportion of clients seeking anonymity and secrecy is high then moral legitimacy may not be financially viable. If this is the case we would expect countries to do everything they can to delay or stop an assessment of legitimacy being made on moral grounds. If the proportion is low then the country

concerned may be prepared to forgo some revenue in exchange for a higher level of legitimacy. Moral legitimacy combined with pragmatic legitimacy may in the end enhance reputation and deliver greater returns to countries prepared to make the necessary changes.

Table 1 outlines the strategies that Suchman suggests will be used to repair each form of legitimacy. To repair pragmatic legitimacy it would be expected that countries deny, minimise or ignore the problem. They may even suggest the formation of some government or international watchdog, favouring a procedure that shifts the focus to the monitoring body. That way, it can be business as usual without too many changes. However, countries are being expected to move up to at least a structural level of moral legitimacy, with the FATF defining the structure, so strategies to repair pragmatic legitimacy are not enough. Considerable restructuring is necessary to reach the FATF's level of structural legitimacy.

Strengthening regulation will turn illegal customers away. Sanctions imposed because regulations are not tightened will make it impossible to do legitimate business and as the movement of funds across national borders is also required for illegal purposes, sanctions will be in nobody's interest. In fact, once blacklisted, countries have no option but to do as required. To retain their current level of legitimacy (ie pragmatic) their only course of action is to question the legitimacy of the FATF, their new self proclaimed conferring entity. This strategy had very little chance of success before 11th September, 2001, and certainly none afterwards, though the IMF's involvement in anti-money laundering and the suspension of further blacklisting does put a question mark over the extent of the FATF's demands.[6]

The actions of the countries concerned should be able to be interpreted to determine what level of legitimacy they are attempting to repair. Though the ultimate outcome will be to conform to the FATF's demands, countries that expect to lose business once regulation is tightened may try to hold off making the necessary changes as long as possible. Legislative changes may be done in stages, with the hope that the FATF will delist them after a minimal amount of change.

RESPONSES TO BLACKLISTING

The details provided in the following four tables (Tables 2 to 5)[7] are an attempt to build a picture (albeit abbreviated) of the economic and financial

Table 1: *Legitimacy repair strategies*

Form	*Strategies to repair legitimacy*
Pragmatic:	*Deny* there is a problem. Allay concerns at least until the organisation can reorganise its financial rewards.
	The organisation itself may also invite the *creation of a monitor* or watchdog which will not immediately re-establish legitimacy but may persuade conferring entities that the problem is under control and that interchange may continue.
	Both the above give the appearance of the event being under control but really are designed to buy time while the organisation does a minimal amount of reorganisation.
Moral:	*Excuse* the problem by questioning the organisation's moral responsibility. This often results in blaming individuals or external parties for the problem.
	Justify the actions. Done by redefining the issue to make the actions appear to be in line with prevailing moral or cognitive beliefs.
	Selective restructuring may be used where the organisation admits to some problems and acts to remedy them.
	Restructuring through dissociation may be used where a structural change is implemented to distance the organisation from 'bad influences'.
Cognitive:	*Explain* the problem in a way that preserves an otherwise supportive world view.

environment of the country concerned. Country characteristics include membership of any anti-money laundering group, offshore financial centre (OFC) assessment by the Financial Stability Forum (all blacklisted countries deemed to be OFCs were given a Group 3 rating indicating the lowest level of supervision of their financial services sector), Transparency International's (TI) assessment of corruption (Corruption Perception Index ranks and scores), the size of their economy (gross domestic product) and per capita wealth[8] as well as any indicators of the size of both their services sector as a whole and where possible their financial services sector. Reliable and consistent reporting of each country's financial sector is virtually impossible to find.

Countries' reactions are necessarily abbreviated with the short description designed to show the sentiment expressed. A more detailed account of reactions to the first blacklisting in June 2000 can be found in Johnson.[9] The legitimacy repair strategies are deduced from public statements and FATF reports in the years following blacklisting.

Countries are split into four groups depending on the length of time they took to respond to the FATF's demands: within 1 year; 2–2.5 years; still working on it; and countries under sanction. It is assumed that the speed of the response gives an indication of the country's concern for its reputation, the size of its financial sector, the likely impact of blacklisting as well as the expected impact of being delisted. It is unlikely that any country viewed their actions as a way of repairing the legitimacy of their financial services sector, although Israel specifically state that they see anti-money laundering as a business issue not a moral issue.[10]

Group 1: Countries taken off the blacklist within one year

Five countries are in Group 1: The Bahamas; Cayman Islands; Liechtenstein; Panama; and Hungary. Their details are outlined in Table 2. All responded quickly to the FATF's criticism of their financial services sector. Two created monitors to oversee the financial sector and all five made all the necessary changes as specified by the FATF even though there was some grumbling about being blacklisted. All belong to a regional anti-money laundering organisation so they are all officially committed to combating money laundering. Therefore, none of them should have had any objection to implementing the FATF's demands. Hungary had the added impetus of hoping to join the European Union. None could afford sanctions which would isolate their financial sector and damage their relationship with their legitimate clients.

The Bahamas, Cayman Islands and Liechtenstein are all large OFCs, with many legitimate clients who would have suffered if new anti-money laundering legislation had not been passed. All three expect their financial business to fall, presumably because clients with other than honest intentions will set up shop somewhere else. Coincidentally, these five are, on average, the wealthiest of the blacklisted countries, judging by their GDP per capita figures (US$5,900–US$30,000) and their services sectors are also, on average, the largest. Details concerning the size of their financial services sectors are sketchy but from the details found these five would also have, on average, the largest financial services sectors in relation to their country's GDP.

Group 2: Countries taken off the blacklist within 2 to 2.5 years

Seven countries, detailed in Table 3, were delisted within 2 to 2.5 years of blacklisting. These countries are, on average, poorer than those in Group 1, with GDP per capita ranging from US$1,600 to US$20,000 with slightly smaller services and financial services sectors. Only Israel and Lebanon are not members of some anti-money laundering group.

From the strategies adopted it is observed that four of the seven initially attempt to deny that there is any problem. Given that this strategy is unlikely to change the FATF's assessment, selective restructuring is used but with a more fragmented and piecemeal approach than the Group 1s. Each time minimal changes are made with the hope that the FATF will this time delist them. This approach would indicate that the countries concerned are trying to hang onto their old positions as long as possible and make the smallest number of changes to their anti-money laundering legislation. However, most comment that blacklisting has hurt business and delisting should bring back public confidence in their financial systems, so they eventually make enough changes to satisfy the FATF.

Group 3: Countries remaining on the blacklist

Group 3 countries, detailed in Table 4, differ from the Group 2s mostly in terms of the speed with which their legislation is being discussed and passed by

Table 2: *Group 1 — Legitimacy repair strategies of countries delisted within one year of blacklisting*

Country	*Initial reaction to blacklisting*	*Legitimacy repair strategies*	*Outcomes*	*Country characteristics*⋆
Bahamas	Upset but decided it was prudent to act quickly to close apparent loopholes.	Selective restructuring.	As a result of new anti-money laundering laws shell banks no longer permitted, bank numbers declining, business declining.	CFATF member Group III OFC GDP/Cap = US$16,800 Services 90% of GDP Financial sectors 20% GDP
Cayman Islands	Astonished. Criticised FATF process. Criticised definition of uncooperative.	Selective restructuring.	Criticism by their own financial industry that changes were made too quickly and due diligence procedures now too strict and too slow. Customers may go elsewhere.	CFATF member Group III OFC GDP/Cap = US$30,000 Services 95% of GDP
Liechtenstein	FATF's assessment accepted. Liechtenstein's aim is for a squeaky clean image.	Monitor (KPMG+). Selective restructuring.	As a result of new anti-money laundering laws financial sector business expected to fall. This is acceptable to maintain a legitimate image.	PC-R-EV member Group III OFC GDP/Cap = US$23,000
Panama	Surprised. Wants to get off the list quickly.	Monitor (government led consultative group). Selective restructuring.	As a result of new anti-money laundering laws investment from overseas expected to increase.	CFATF member Group III OFC CPI score = 3.7 CPI rank = 51/91 GDP/Cap = US$5,900 Services 76% of GDP Financial sector >50% GDP
Hungary	Shocked. Regretted that FATF failed to take into consideration changes already agreed on but not yet implemented.	Selective restructuring.	Hungary hopes to join the EU so it needs to get off the blacklist.	PC-R-EV member CPI score = 5.3 CPI rank = 31/91 GDP/Cap = US$12000 Services 60% of GDP Financial sector 17% of GDP

+ KPMG is a global network of professional services firms providing financial advisory services.
⋆ CFATF — Caribbean Financial Action Task Force; CPI — Corruption Perceptions Index for 2001; PC-R-EV is the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures monitoring European countries which are not members of FATF.

their parliaments. There is the same denial phase before a piecemeal approach is taken to changing legislation. They are, however, poorer than the Group 2s with on average smaller services and financial services sectors.

Corruption Perceptions Index scores and ranks indicate a high level of corruption in all Group 3 countries assessed by TI. This may account for the parliamentary hindrance and lack of commitment to introducing and/or improving anti-money

Table 3: *Group 2 — Legitimacy repair strategies of countries removed from the blacklist within 2–2.5 years*

Country	*Initial reaction to blacklisting*	*Legitimacy repair strategies*	*Outcomes*	*Country characteristics**
Israel	Will change laws as money laundering is bad for business. Not motived by moral concerns.	Selective restructuring (piecemeal).	Blacklisting led to a decline in business.	CPI score = 7.6 CPI rank = 16/91 GDP/Cap = US$20000 Services 59% of GDP
Lebanon	Rejected claims of money laundering. Called for an Arab fight against money laundering. If kept on the blacklist would assume there were political motives.	Deny. Excuse. Selective restructuring (piecemeal).	Delisting seen as a vote of confidence in Lebanon as a regional financial centre.	Group III OFC GDP/Cap = US$5200 Services 67% of GDP
St Kitts & Nevis	Seen as sinister plot to destabilise small countries	Deny. Selective restructuring (piecemeal).	With delisting financial business expected to increase.	CFATF member Group III OFC GDP/Cap = US$8700 Services 71% of GDP
Dominica	Reluctant to 'violate privacy' of banking clients.	Selective restructuring (piecemeal).	Dominica Bar Association says too much power over banking granted to foreign authorities.	CFATF member GDP/Cap = US$3700 Services 59% of GDP Financial Sector 11% of GDP
Marshall Islands	Annoyed, as they were intending to introduce anti-money laundering legislation. Agreed with the assessment of their legislation but rejected claims of money laundering.	Deny. Selective restructuring (piecemeal).	Blacklisting has caused a decline in business. Worried about possible sanctions.	APG member Group III OFC GDP/Cap = US$1600 Services 70% of GDP Financial Sector 16% of GDP
Niue	Took exception to uncooperative label. Name unfairly tainted. "No problem until people started accusing us."	Deny. Selective restructuring (piecemeal).	Prime Minister planned to close offshore banks. IBCs to remain. Delisting should restore financial reputation and business.	APG member Group III OFC GDP/Cap = US$3600 Services 55% of GDP
Russia	Committed to anti-money laundering. Blacklisting seen as political.	Monitor (wants to join the FATF). Selective restructuring (piecemeal).	When sanction threatened, banking business declined. Delisting expected to increase foreign investment.	PC-R-EV member CPI score = 2.3 CPI rank = 79/91 GDP/Cap = US$8300 Services 56% of GDP Financial Sector 4% of GDP

* CFATF — Caribbean Financial Action Task Force; CPI — Corruption Perceptions Index for 2001; PC-R-EV is the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures monitoring European countries which are not members of FATF; APG — Asia/Pacific Anti-Money laundering Group.

Table 4: *Group 3 — Legitimacy repair strategies of countries remaining on the blacklist*

Country	*Initial reaction to blacklisting*	*Legitimacy repair strategies*	*Outcomes*	*Country characteristics*⋆
Cook Islands	Accused OECD of terrorising small countries. Denied any money laundering. Critical of the FATF. Standing up against large countries is difficult.	Deny. Selective restructuring (piecemeal and slow).	Worried about possible sanctions, doesn't have the expertise to comply, has asked NZ for help.	APG member Group III OFC GDP/Cap = US$5000 Services 75% of GDP Financial Sector 10% of GDP
Egypt	No money laundering here.	Deny. Selective restructuring (piecemeal).	Already experiencing US sanctions.	CPI score = 3.6 CPI rank = 54/91 GDP/Cap = US$3700 Services 56% of GDP Financial Sector 5% of GDP
Grenada	Shocked and angered by news. Must be another reason unknown to them for blacklisting.	Deny. Monitor (ECCB+) Selective restructuring (piecemeal).	Has started revoking banking licences.	CFATF member Not identified as an OFC GDP/Cap = US$4750 Services 68% of GDP
Guatemala	Situation expected to be corrected within a short time.	Selective restructuring (piecemeal).	Blacklisting has had a negative impact on investment. Delisting expected to increase confidence and investment.	CPI score = 2.9 CPI rank = 65/91 GDP/Cap = US$3700 Services 57% of GDP
Indonesia	Regret. Denies any banks involved in money laundering.	Deny. Excuse. (Government unable to fight money laundering, too much corruption.) Selective restructuring (piecemeal and slow).	Blacklisting will damage international confidence in country's banking industry, but increased regulation expected to increase capital flight. In danger of sanctions.	APG member CPI score = 1.9 CPI rank = 88/91 GDP/Cap = US$3000 Services 42% of GDP Financial Sector 6% of GDP
Myanmar	Critical of blacklisting.	Selective restructuring.	Public concerned about new anti-money laundering laws with confiscation rights. Currency falls in value.	GDP/Cap = US$1500 Services 41% of GDP
Nigeria	Unwilling to cooperate with the FATF.	Selective restructuring after sanctions applied.	Laws passed in an attempt to avoid sanctions.	Not identified as an OFC CPI score = 1.0 CPI rank = 90/91 GDP/Cap = US$840 Services 28% of GDP
Philippines	Admitted situation. Considered report motivation for enacting proper anti-money laundering legislation.	Selective restructuring (piecemeal and slow).	Possible sanctions if too little progress made.	APG member CPI score = 2.9 CPI rank = 65/91 GDP/Cap = US$4000 Services 53% of GDP Financial Sector 5% of GDP
St Vincent & the Grenadines	Doing nothing illegal or immoral. Aim is to build a vibrant, clean and legitimate OFC.	Deny. Monitor (ECCB). Selective restructuring (piecemeal).	Closed some offshore banks.	CFATF member Group III OFC GDP/Cap = US$2900 Services 64% of GDP

+ ECCB — Eastern Caribbean Central Bank.
⋆ CFATF — Caribbean Financial Action Task Force; CPI — Corruption Perceptions Index for 2001; APG — Asia/Pacific Anti-Money laundering Group.

laundering legislation, although five of the eight are members of a regional anti-money laundering organisation. Some are now at the stage where the effectiveness of the legislation must be judged and are waiting for the FATF to make this evaluation, although Nigeria only avoided sanctions by rushing legislation through its parliament just before sanctions were due to be applied.

Group 4: Countries sanctioned

Basic lack of interest in attending to anti-money laundering legislation separates the Group 4s from the other blacklisted countries. Nauru has been desperately trying to hang on to its offshore banking which has been criticised, in particular by Russian authorities, for facilitating the transfer of around US$70–80bn for Russian citizens.[11] In a last attempt to regain respectability, and in response to continued pressure from the world's financial regulators, the new government of Nauru has ended its offshore banking operations, revoking 139 offshore banking licenses.[12] How the island will fare with its only other asset, phosphate, running out rapidly, remains to be seen. Ukraine appears uninterested in attending to anti-money laundering legislation and new legislation has seemingly been passed to ward off sanctions that would hurt legitimate domestic financial business. Group 4s are also the poorest of the four groups and are placed at the bottom of the TI corruption rankings. This will, of course, have a large impact on the countries' responses and the speed at which legislative changes are made. If either of the countries ever manages to restructure to FATF standards the application of the law will have to be closely monitored.

Summary

From the analysis of countries' responses to blacklisting it is observed that the countries that responded quickest and more thoroughly to blacklisting were the wealthiest countries with the largest services and financial services sectors. They were more likely to already be members of a regional anti-money laundering organisation and to be the least corrupt amongst the blacklisted countries. Corruption appears to be linked to response time as does poverty with the poorest and more corrupt countries being slower to act presumably with the aim of changing as little legislation as the FATF will accept. The poorest countries try to hold on to financial viability provided by their dishonest clients while those at the top of the most corrupt countries try to maintain a profitable status quo.

CONCLUSIONS

The importance of recognising changes in society's values is as important for countries as it is for

Table 5: *Group 4 — Legitimacy repair strategies of sanctioned countries*

Country	*Initial reaction to blacklisting*	*Legitimacy repair strategies*	*Outcomes*	*Country characteristics**
Nauru	Concerned their OFC will be shut down.	Selective restructuring (piecemeal and slow).	Concerned about sanctions.	Group III OFC GDP/Cap = US$5000
Ukraine	Not enthusiastic about anti-money laundering laws	Selective restructuring (piecemeal and slow).	Difficulty getting any anti-money laundering laws passed. Sanctions would be catastrophic so laws passed only to avoid sanctions. Only European country not to pass anti-money laundering legislation.	PC-R-EV member Not identified as an OFC CPI score = 2.1 CPI rank = 83/91 GDP/Cap = US$4200 Services 47% of GDP Financial Sector 6% of GDP

* CPI — Corruption Perceptions Index for 2001; PC-R-EV is the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures monitoring European countries which are not members of FATF.

organisations. Global organisations with enough support can have a serious impact on the activities of targeted countries, be it trade embargoes, human rights or in this case money laundering. Countries can no longer operate in isolation, determining their own affairs and choosing the entities to whom they are responsible. Globalisation has made that impossible. Countries that recognised the importance to their financial sectors of this new 'moral legitimacy' faced the issue of blacklisting head on and made the appropriate changes. Others tried to hold on to what they had, fearing the decline in financial business once anti-money laundering legislation was tightened. It must be assumed that the majority of business lost as a result of improved anti-money laundering legislation is business of a doubtful nature. For countries that offer almost exclusively no-questions-asked financial services this new level of moral legitimacy is unlikely to be financially viable. For them alternative means of government revenue raising must be found. For those countries intent on remaining unchanged, their access to global financial markets will be more and more difficult and they will lose business from their honest and dishonest clients. With the backing that the FATF enjoys and its ability to implement sanctions against countries that will not bring their anti-money laundering legislation up to standard, blacklisted countries have little choice. They must comply with FATF requirements, obtain moral legitimacy for their financial sector and bear any adverse financial consequences.

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(6) 'Report on the Outcomes of the FATF Plenary Meeting and Proposal for the Endorsement of the Methodology for Assessing Compliance with Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Standard', International Monetary Fund, 8th November, 2002.

(7) Country information contained in Tables 2 to 5 has been collated from a number of sources: daily newspapers for reactions; Transparency International for the Corruption Perceptions Index scores and ranks; the CIA World Fact Books and IMF for GDP data; the Financial Stability Forum for assessments of offshore financial centres; and anti-money laundering organisations for membership details.

(8) The gross domestic product (GDP) is the value of all final goods and services produced within a nation in a given year. GDP dollar estimates here are derived from purchasing power parity (PPP) calculations rather than from conversions at official currency exchange rates. The PPP method involves the use of standardised international dollar price weights, which are applied to the quantities of final goods and services produced in a given economy. The data derived from the PPP method provide the best available starting point for comparisons of economic strength and wellbeing between countries. GDP per capita shows GDP on a PPP basis divided by population as of 1st July for the same year. Source: *World Fact Book 2002* produced by the Criminal Intelligence Agency of the USA.

(9) Johnson, J. (2001) 'Blacklisting: Initial Reactions, Responses and Repercussions', *Journal of Money Laundering Control*, Vol. 4, No. 3, pp. 211–225.

(10) Berger, S. (2001) 'A Country for Sale', *Israel Sun*, 3rd August.

(11) Bureau for International Narcotics and Law Enforcement Affairs (2000) 'International Narcotics Control Strategy Report, 1999', US Department of State, Washington DC.

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***Dr Jackie Johnson**, Senior Lecturer, Accounting & Finance, UWA Business School, The University of Western Australia; e-mail: Jackie.Johnson@uwa.edu.au.*

Appendix

Table A.1: *Blacklisting progress*

Country	*June 2000*[a]	*June 2001*[b]	*June 2002*[c]	*October 2002*[d]
Bahamas	Blacklisted	Delisted		
Cayman Islands	Blacklisted	Delisted		
Cook Islands	Blacklisted	Making progress	Making progress	Making progress
Dominica	Blacklisted	Making progress	Making progress	Delisted
Israel	Blacklisted	Making progress	Delisted	
Lebanon	Blacklisted	Making progress	Delisted	
Liechtenstein	Blacklisted	Delisted		
Marshall Islands	Blacklisted	Making progress	Making progress	Delisted
Nauru	Blacklisted	Inadequate progress	Inadequate progress (Countermeasures applied from 5/12/2001)	
Niue	Blacklisted	Making progress	Making progress	Delisted
Panama	Blacklisted	Delisted		
Philippines	Blacklisted	Inadequate progress	Making progress	Making progress
Russia	Blacklisted	Inadequate progress	Making progress	Delisted
St Kitts & Nevis	Blacklisted	Making progress	Delisted	
St Vincent & Grenadines	Blacklisted	Making progress	Making progress	Making progress
Egypt		Blacklisted	Making progress	Making progress
Grenada		Blacklisted[e]	Making progress	Making progress
Guatemala		Blacklisted	Making progress	Making progress
Hungary		Blacklisted	Delisted	
Indonesia		Blacklisted	Making progress	Making progress
Myanmar		Blacklisted	Making progress	Making progress
Nigeria		Blacklisted	Inadequate progress	Making progress
Ukraine		Blacklisted[e]	Inadequate progress	Inadequate progress (Countermeasures applied from 15/12/2002)

[a] 'Review to Identify Non-Cooperative Countries or Territories: Increasing the Worldwide Effectiveness of Anti-Money Laundering Measures', FATF, 22nd June, 2000.

[b] *Ibid.*, 22nd June, 2001.

[c] *Ibid.*, 21st June, 2002.

[d] 'Russia, Dominica, Niue and Marshall Islands Removed from FATF's List of Non-Cooperative Countries and Territories', FATF Announcement, 11th October, 2002.

[e] Blacklisted in the September 2001 update. See 'Non-Cooperative Countries and Territories', FATF Announcement, 7th September, 2001.

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